

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 6517-01
Bill No.: HB 2255
Subject: Utilities; Taxation and Revenue - Sales and Use
Type: Original
Date: April 22, 2014

Bill Summary: This proposal would authorize a sales tax exemption for electricity and gas used or consumed in connection with the utility industry.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
General Revenue	(\$19,107,792)	(\$22,929,350)	(\$22,929,350)
Total Estimated Net Effect on General Revenue Fund	(\$19,107,792)	(\$22,929,350)	(\$22,929,350)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Conservation Commission	(\$786,458)	(\$943,750)	(\$943,750)
Parks, and Soil and Water	(\$629,167)	(\$755,000)	(\$755,000)
School District Trust	(\$6,291,667)	(\$7,550,000)	(\$7,550,000)
Total Estimated Net Effect on <u>Other</u> State Funds	(\$7,707,292)	(\$9,248,750)	(\$9,248,750)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Total Estimated Net Effect on FTE	0	0	0

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Local Government	(\$23,046,375)	(\$27,655,650)	(\$27,655,650)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would have statewide impact, and would impact the calculation required under Article X, Section 18(e) of the Missouri Constitution.

BAP officials noted this proposal would exempt from sales tax various inputs to the utilities industry. These exemptions include the utilities, chemicals, machinery, equipment, supplies, parts and materials used by that industry.

BAP officials assume the terms "supplies, parts, and materials" would include most inputs to production for the utilities, and noted the following.

- * According to the Input-Output Use Tables provided by the United States Department of Commerce, Bureau of Economic Analysis, inputs from commodities that might qualify under these exemptions are roughly equal to 16% of the total output of the "utilities" industry.
- * Missouri Department of Revenue (DOR) reports indicate taxable sales of "utilities" in 2013 were about \$4,715.7 million, which suggests that this proposal might exempt (\$4715.7 million x 16%) = \$755 million in taxable sales from taxation.

ASSUMPTION (continued)

BAP officials assume this proposal would reduce state revenues as shown in the table below; however, actual losses may differ from this estimate if the actual output of the firms in question differs from the estimate of the taxable sales reported by DOR, if some inputs are already exempt, or if the ratio of taxable inputs differs from that assumed for this analysis.

General Revenue	\$22.7 million
Education	\$7.6 million
Conservation	\$1.0 million
Natural Resources	\$0.8 million

Officials from the **Department of Revenue (DOR)** assume this proposal would create a sales tax exemption for electrical energy and gas, water, coal, and other energy sources, chemicals, machinery, equipment, parts and materials used and consumed in the generation, transmission, distribution, sale, or furnishing of electricity for light, heat, or power to customers.

Fiscal impact

DOR officials stated they were not able to determine the exact fiscal impact to state and local taxes; however, based on refund claims from companies in a similar industry, the Department estimates the impact may be between \$30 and \$60 million annually. The state revenue loss would be approximately half the \$30 to \$60 million and the local revenue loss would be approximately half.

Administrative impact

DOR officials assume this proposal would not result in any administrative or IT cost to implement.

Officials from the **Office of the Secretary of State**, the **Joint Committee on Administrative Rules**, and the **Department of Economic Development - Division of Energy, Public Service Commission**, and **Office of Public Counsel** assume this proposal would have no fiscal impact on their organizations.

ASSUMPTION (continued)

Oversight notes the BAP estimate of \$755 million in potentially taxable inputs indicated above would generate sales tax revenues as shown below.

Fund or entity	Sales Tax Rate	Estimated Revenue	
		Annual	Ten months
General Revenue Fund	3.000%	\$22,650,000	\$18,875,000
School District Trust Fund	1.000%	\$7,550,000	\$6,291,667
Conservation Commission Fund	0.125%	\$943,750	\$786,458
Parks, and Soil and Water Fund	0.100%	\$755,000	\$629,167
Local Governments	3.700%	\$27,935,000	\$23,279,167

Oversight notes the amounts calculated above are approximately equal to the lower of the Department of Revenue estimates, and will use these amounts for fiscal note purposes. Oversight will also indicate a reduction in revenue for the General Revenue Fund of \$279,350 (twelve months) and \$232,792 (ten months) for the reduction in local government sales tax collection charges.

Oversight assumes this proposal was not intended to provide a sales and use tax exemption for motor vehicles purchased by utility companies. If this proposal was interpreted to provide a sales and use tax exemption for motor vehicles purchased by utility companies, there would be a significant but unknown additional reduction in revenue for roads, conservation, parks and soils, and for local governments.

Oversight also notes that revenues in the School District Trust Fund are distributed, along with other revenues, to local school districts, but will not include those distributions in this fiscal note.

<u>FISCAL IMPACT - State Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
GENERAL REVENUE FUND			
<u>Revenue reduction - DOR</u>			
Collection charges on sales tax			
Section 144.058	(\$232,792)	(\$279,350)	(\$279,350)
<u>Revenue reduction - Sales tax exemption</u>			
Section 144.058	<u>(\$18,875,000)</u>	<u>(\$22,650,000)</u>	<u>(\$22,650,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$19,107,792)</u>	<u>(\$22,929,350)</u>	<u>(\$22,929,350)</u>
SCHOOL DISTRICT TRUST FUND			
<u>Revenue reduction - Sales tax exemption</u>			
Section 144.058	<u>(\$6,291,667)</u>	<u>(\$7,550,000)</u>	<u>(\$7,550,000)</u>
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	<u>(\$6,291,667)</u>	<u>(\$7,550,000)</u>	<u>(\$7,550,000)</u>
CONSERVATION COMMISSION FUND			
<u>Revenue reduction - Sales tax exemption</u>			
Section 144.058	<u>(\$786,458)</u>	<u>(\$943,750)</u>	<u>(\$943,750)</u>
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	<u>(\$786,458)</u>	<u>(\$943,750)</u>	<u>(\$943,750)</u>

FISCAL IMPACT - State Government
 (Continued)

**PARKS, AND SOIL AND WATER
 FUNDS**

Revenue reduction - Sales tax exemption
 Section 144.058

(\$629,167)	(\$755,000)	(\$755,000)
-------------	-------------	-------------

**ESTIMATED NET EFFECT ON
 PARKS, AND SOIL AND WATER
 FUNDS**

<u>(\$629,167)</u>	<u>(\$755,000)</u>	<u>(\$755,000)</u>
--------------------	--------------------	--------------------

FISCAL IMPACT - Local Government

FY 2015
 (10 Mo.)

FY 2016

FY 2017

LOCAL GOVERNMENTS

Reduction in cost - DOR collection
charges
 Section 144.058

\$232,792	\$279,350	\$279,350
-----------	-----------	-----------

Revenue reduction - Sales tax exemption
 Section 144.058

<u>(\$23,279,167)</u>	<u>(\$27,935,000)</u>	<u>(\$27,935,000)</u>
-----------------------	-----------------------	-----------------------

**ESTIMATED NET EFFECT ON
 LOCAL GOVERNMENTS**

<u>(\$23,046,375)</u>	<u>(\$27,655,650)</u>	<u>(\$27,655,650)</u>
-----------------------	-----------------------	-----------------------

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

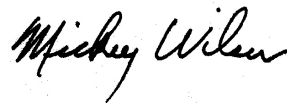
FISCAL DESCRIPTION

This proposal would provide a sales tax exemption for electrical energy, gas, water, coal, energy sources, and specified materials used or consumed in the production or transmission of electricity to customers.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of State
Joint Committee on Administrative Rules
Office of Administration
 Division of Budget and Planning
Department of Economic Development
 Division of Energy
 Public Service Commission
 Office of Public Counsel
Department of Revenue



Mickey Wilson, CPA
Director
April 22, 2014

Ross Strobe
Assistant Director
April 22, 2014